



United States Department of Agriculture  
Wisconsin Rural Development

## **GUIDELINES FOR SERVICING GUARANTEED RURAL HOUSING (GRH) LOANS**

Remind your collection team that the Rural Development portfolio is unique and may require greater empathy than usual. The characteristics that make GRH loans different from conventional loans are as follows:

- These loans did not require a down payment.
- There is no monthly mortgage insurance, only the Rural Development guarantee.
- There was no requirement for verified cash reserves at the time of loan closing.
- Most borrowers are first time homebuyers and suffer from significant payment shock.
- Most borrowers were in the low or moderate-income range.
- Some borrowers had less than perfect credit or higher than normal repayment ratios.

You may find it difficult to tell if the loans are “conventional” or “government”. While guaranteed by the Rural Housing Service (RHS), A United States Department of Agriculture agency, most of the loans were processed using conventional forms and underwritten following Fannie Mae, Freddie Mac or Ginnie Mae guidelines.

- RD Instruction 1980-D can be viewed by clicking [here](#).

These servicing guidelines were developed for use in Wisconsin. Many of them mirror cooperative effort by RHS in other states to standardize some guidelines while waiting for a detailed national guide. Lenders are invited to send a copy of this guide to other Rural Development state offices to determine which of these guidelines needs to be modified for use in that state. National standardized servicing regulations are under development. The requirements on reporting defaulted loans and filing for claims are national standards.

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## **LENDER'S GENERAL RESPONSIBILITY**

- Identify the Rural Development GRH loans on your servicing system.

Identifying the Rural Development GRH loans is the first and often most difficult step, as most Loan Servicing Systems, such as ALLTEL, do not currently provide a specific code to indicate this loan type. Each GRH loan is assigned a Borrower Case Number, with 15 digits. Within that number is a State and County Code and the Borrower's Social Security Number. When necessary, a review of the loan Origination file and closing documents will provide confirmation the loan is GRH, and includes the Borrower's Case number that is required for reporting and filing Loss Claims with Rural Development. Sold in pools and transferred to other servicers, the GRH loans are often miscoded as FHA, VA, Farm Loans, or even Conventional Uninsured. It is important the New loan Set-up Departments and due diligence efforts prior to service transfers include a process to identify GRH loans and code them correctly to ensure that the servicing requirements found in RD Instruction 1980-D are met prior to filing a Loss Claim. Failure to do so can result in the Loss Claim being denied after liquidation. All new and transferred loans must be reported to the Rural Development. Use [Form RD 1980-11](#), "Lender Record Change" to report changes in the ownership or the servicer of the loan. You may fax the form to the Guaranteed Loan Branch in the St. Louis Finance Office at: 314-539-3110 or send by e-mail to: [guaranteed.loan@stl.rural.usda.gov](mailto:guaranteed.loan@stl.rural.usda.gov).

- Lenders should provide sufficient servicing and counseling to meet the objectives of the loans. Loan servicing should be approached as a preventive action rather than a curative action. Prompt follow-up by the Lender on delinquent payments and early recognition and resolution to problems are the keys to resolving many delinquent loan cases. The Lender shall perform those services that a reasonable and prudent Lender would perform in servicing its own portfolio that are not guaranteed.
- See the responsibilities described on the Form RD 1980-16, "Lender's Agreement for Participation in the Guaranteed Housing Loan Program." found at: <http://rdinit.usda.gov/regs/formtoc.html>.

## **DEFAULTED LOAN & QUARTERLY LOAN STATUS REPORTS**

- Electronic default reporting is required on a monthly basis for all GRH loans that are in default.
- Electronic portfolio reporting is required on a quarterly basis for all GRH loans serviced by the lender.
- Lenders with 100 or fewer loans can use the web pages at: <https://usdalinc.sc.egov.usda.gov>
- Lenders with more than 100 loans are required to submit ANSI X12 files over the Internet. The instructions for the X12 for the X12 format are at: <http://rdinit.usda.gov/regs/handbook/edi.pdf>

- Lenders who are new to the GRH loan program must sign a “Basic Trading Partner Agreement” with addendums B and D to begin submitting their reports electronically. Our Finance Office will issue new lenders reporting instructions and a password that will provide access to our website. These forms can be obtained by clicking [here](#). The complete RHS Electronic Data Interchange (EDI) Handbook can be found at: <http://rdinit.usda.gov/regs/handbook/edi.pdf>.
- For assistance with electronic reporting, lenders may call toll free to: 877-636-3789 or e-mail to: [guaranteed.loan@stl.rural.usda.gov](mailto:guaranteed.loan@stl.rural.usda.gov).

## **NORMAL LOAN SERVICING**

- Receive and process payments; properly apply payments to principal, interest, and escrow.
- Establish and maintain escrow accounts to pay real estate taxes, hazard/flood insurance, and home owner’s association dues in a timely manner.
- Obtain compliance with mortgage covenants, loan agreements, security agreements, etc. Also, notify the borrower in writing of any violations.

## **OTHER SERVICING REQUIREMENTS**

- Assure that insurance loss payments, condemnation awards, or similar proceeds are applied on debts in accordance with lien priorities. Rebuild or otherwise acquire replacement collateral.
- Assure that the borrower is not released from liability for the loan except as provided by law and the RHS regulations. Co-borrowers may be added to a new loan or deleted from an existing loan if a new GRH loan to refinance the existing debt is approved by Rural Development.
- No other authority exists for Rural Development to concur with release of liability requests except in the case of debt settlement actions.

## **DEFAULTS BY THE BORROWER**

- Make a reasonable attempt to contact the borrower if the payment is not received by the 20<sup>th</sup> day after it is due.
- Make a reasonable attempt to hold an interview with the borrower to resolve the delinquency before the loan becomes 60 days delinquent. The interview may be face-to-face or by telephone. Reasonable effort consists of not less than one letter via certified mail that the borrower refuses to accept or fails to respond.

- If the Lender is unable to make contact with the borrower, the Lender must determine if the property is abandoned and if the security is in jeopardy before the account becomes two payments delinquent.
- When the loan becomes 3 payments delinquent, the Lender must report the delinquency to credit repositories and make a decision with regard to liquidation.
- The Lender may proceed with liquidation by foreclosure without prior Rural Development concurrence unless there are extenuating circumstances.
- A servicing plan approved by the Agency is required if liquidation is delayed beyond the 90 days.

### **PROTECTIVE ADVANCES**

- Special protective advances made in excess of \$500.00 to protect the Lender's interest in the property should have Rural Development's prior concurrence (except Fannie Mae owned loans). Protective advances are made for expenses of an emergency nature necessary to preserve or protect the physical security. Examples include fixing a roof to minimize water damage, boarding up or replacing windows, winterizing or securing an abandoned property, etc.
- Foreclosure protective advances are covered under any claim for loss.

### **SHORT TERM WORKOUT AGREEMENTS**

- Servicers may execute workout agreements with the borrower for effective periods up to 3 months without prior Rural Development concurrence.
- The rate and term of the loan is not changed.
- The short-term workout agreement and supporting documentation must be maintained in the servicing file for so long as Rural Development holds a guarantee on the loan.

### **LOAN MODIFICATION AGREEMENTS**

- Standardized national guidance is available. A new Administrative Notice (AN) is under development. Check the AN list periodically at: [http://rdinit.usda.gov/regs/an\\_list.html](http://rdinit.usda.gov/regs/an_list.html).
- The current national administrative notice pertaining to Loan Modification Agreements is RD AN 3509 (1980-D) dated 01-20-00. A copy of this AN and attachments can be obtained by clicking [here](#).
- A Servicing Workout Plan and Workout Summary (or similar documentation) must be submitted as described in RD AN 3509 (1980-D) dated 01-20-00. The request for loan modification, including supporting documentation, must be forwarded to Rural

Development for approval. Loan modification requests for Wisconsin GRH loans can be sent to: [Paul.Bartlett@wi.usda.gov](mailto:Paul.Bartlett@wi.usda.gov).

- The borrowers must have permanently resolved the problem causing the default.
- **Reamortization Issues**
  - New rate may be lower, but not higher.
  - New loan term cannot exceed 30 years from the date of the loan modification agreement.
  - Accrued interest and foreclosure expenses may be capitalized. The original principal amount of the loan may be exceeded. However, the Rural Development guarantee is limited to 90% of the original note amount.
- Submit only those loan modification agreements that your servicer recommends.
- For Fannie Mae owned loans, no Rural Development concurrence is required. Consult with Fannie Mae for guidance on Loan Modification Agreements.

### **VOLUNTARY LIQUIDATION / SHORT SALES**

- Needs prior Rural Development concurrence of the liquidation plan if it is likely that a loss claim will be filed by the lender.
- The liquidation plan must clearly address the responsibilities of the parties.
- The lender maintains oversight of the progress of the sale.
- The property is listed for sale at a price in line with its market value based on a recent appraisal.
- Rural Development may consider a slightly below market sale to encourage the third party sale in lieu of the Lender's probable foreclosure action if any expected loss is not increased compared to a foreclosure action.

### **DEED-IN-LIEU OF FORECLOSURE**

- Needs prior Rural Development concurrence of the liquidation plan if it is likely that a loss claim will be filed by the lender.
- Lenders may accept a deed-in-lieu of foreclosure when the anticipated loss will not exceed the loss from a foreclosure action and subsequent REO.
- The lender of record for the loan will receive title to the property, NOT the Rural Housing Service or Rural Development.

- Lenders must be able to obtain a clear and marketable title from the borrower. Lenders must submit a written analysis and recommendation including a recent real estate appraisal to support this method of loan liquidation.

### **REINSTATEMENT OF ACCOUNTS IN FORCLOSURE STATUS**

- Lenders may reinstate the accounts upon full payment of all arrearages and legal fees.
- Rural Development concurrence is necessary if the Lender proposes acceptance of less than all arrearages and fees.

### **BANKRUPTCY**

- Rural Development is notified by the lender through the monthly default and quarterly loan status reports. Notify your investor reporting team that this account is a GRH loan.
- Lenders should attempt to obtain a relief from stay as soon as possible in cases where the loan is in default.

### **TRANSFER & ASSUMPTIONS**

- Lenders may, but are not required, to permit assumptions.
- Discuss the case with Rural Development prior to processing.

#### **WITHOUT MAINTAINING THE GUARANTEE**

- Lenders may allow any purchaser to assume the loan without regard for their eligibility for the GRH loan.
- The purchaser would simply be either assuming the loan as same rates and terms or would obtain a new loan to pay off the borrower's account.
- Loans can be assumed for less than the debt. The transfer must be for the current appraised value. The lender can file for reimbursement for any loss incurred.
- The Lender would notify Rural Development to cancel the guarantee.

#### **TO MAINTAIN THE GUARANTEE**

- The applicant must meet all the GRH loan eligibility requirements. Essentially the lender must process a new GRH loan application.
- The guarantee fee is due upon delivery of the loan closing package to Rural Development.
- The present borrowers (the transferor) cannot be released from liability.

### **FORECLOSURE BIDS & THIRD PARTY SALES**

- Sales to third party at the foreclosure occur when the third party outbids the lender. If the lender has bid at least 85% of the property's value (based on a recent appraisal or

BPO), these pose no problems. The Lender can file a claim for reimbursement of any loss.

- No concurrence by Rural Development of the foreclosure sale bid amount is required.
- If you want Rural Development advice, consult with the Rural Development state office in the state where the property is located. State laws may influence the bidding instructions. Go to the Rural Development national web site at: <http://www.rurdev.usda.gov/> to obtain information on state office locations.
- Lenders may bid the lessor of the total debt or 85% of the property's value as determined by a recent appraisal or BPO. Refer to [RD AN 3680](#) (1980-D) dated 11-01-01 for additional guidance on foreclosure sale bids.
- The value may be based on either the BPO or appraisal. We recommend obtaining a complete appraisal prior to the foreclosure sale. In the event that the lender becomes the successful bidder at the foreclosure sale, the appraisal could be submitted to Rural Development as part of the lender's property disposition plan.

### **DEFICIENCY COLLECTION**

- Lenders must make a reasonable effort to collect any deficiencies from the borrower(s).
- Lenders must analyze the collectability of a deficiency judgement considering the borrower's assets, and ability to pay, prospects of future recovery, and the costs of pursuing such recovery (legal fees plus longer redemption periods). Refer to the RD Instruction [1980-D](#), paragraph 1980.374 (b) for more information.
- The cost of pursuing the judgment and collection may be included in the future claim (as part of the legal expenses).
- Deficiencies resulting from short sales, assumptions for less than debt, and deed in lieu of foreclosure should be actively pursued from all parties liable on the loan. These actions are favorable to the borrowers in that they relieve them from foreclosure and possible bankruptcy. A loss claim should not be pursued until all possible avenues of collection from the borrower have been considered. Lenders should not release borrowers of personal liability without first obtaining documentation to address the possibility of further collection.
- Document your reasonable effort in locating the parties responsible for the loan in cases of disappeared debtors.
- A loss payment will be made under the guarantee when the Lender holds a deficiency judgment but there are not current prospects of collections, even if there may be in the future. However, if there is a good prospect of recovery, the claim cannot be made (there would be no loss).



- Any future recovery by the lender from a deficiency judgement must be prorated between Rural Development and the lender based on their respective share of the loss when the original loss claim was paid.

## **PROPERTY DISPOSITION PLAN**

- This section is not applicable to Fannie Mae. However, lenders should notify Rural Development of the account information and acquisition/foreclosure date.
- This section is applicable to Freddie Mac. Colleen Briggs at HomeSteps / FHLMC will be responsible for submitting property disposition plans or summaries for FHLMC lenders. She can be reached at (972) 395-2968 or by email at: [Colleen\\_Briggs@freddiemac.com](mailto:Colleen_Briggs@freddiemac.com). If Colleen is unavailable, you may contact her Supervisor, Cottie Stephens at (972) 395-2955 or by email at: [Cottie\\_Stephens@freddiemac.com](mailto:Cottie_Stephens@freddiemac.com). *NOTE: FHLMC typically submits their property disposition plan information with their loss claim.*
- A property disposition plan is required within 30 days of acquiring the property. However, when an eviction or redemption period prevents an accurate appraisal within the 30 days, the plan may be presented within 30 days of acquiring access to the property.
- Any marketing plan format you use for MI companies will likely be acceptable to Rural Development. A sample property disposition plan format is available on page 13. A property disposition plan that is fillable on screen is posted separately on this site.
- Refer to RD AN 3544 (1980-D) dated 05-10-00 for additional guidance on the completion of property disposition plans. Click [here](#) to view this AN.
- A narrative format is acceptable providing it contains the following information:
  1. A complete current real estate appraisal with color photographs.
  2. Name and address of listing agency.
  3. Estimated costs (itemized) for property management and resale expenses.
  4. Estimated costs of repair to make the property marketable (if applicable).
  5. Listing price and most probable sales price.
- Rural Development will respond to property disposition plans within 5 business days, typically. For Wisconsin GRH loans, submit the plan by fax to: (715) 345-7699 or e-mail your plan to: [Paul.Bartlett@wi.usda.gov](mailto:Paul.Bartlett@wi.usda.gov).

## **MARKETING TIME**

- Lenders are allowed six months from the foreclosure / acquisition date to market the REO, regardless of redemption rights or eviction processes. Wisconsin Rural Development will allow lenders to make administrative price reductions of 5% per month below the listing price after the property has been listed for 60 days to encourage sales.

## **FILING A LOSS CLAIM**

- Lenders may submit a loss claim at any time during this six month period prior to the actual sale of the REO. Rural Development will obtain a liquidation value appraisal of the property on which the loss claim will be based.
- The deadline is 30 days after the expiration of the 6-month marketing period, or a total of 7 months from the acquisition date, regardless of any redemption period, if the property has not sold within the 6-month period.
- If the property was sold at the foreclosure sale to a third party or was sold from REO, the claim is due at 30 days from the date of closing.
- If the borrower sells their property for less than full debt (short sale), the loss claim must be filed within 30 days after the loan closing. Note: Rural Development concurrence is required for a transfer/sale for less than full debt.
- Refer to RD Instruction [1980-D](#), paragraph 1980.376 for more information.
- Refer to RD [AN 3784](#) (1980-D) dated 09-10-02 for more information on Acceptable Foreclosure Time Frames.

## **LOSS CLAIM PROCESSING**

- The current national administrative notice pertaining to loss claim processing is RD AN 3564 (1980-D) dated 08-17-00. A copy of this AN and attachments can be obtained by clicking [here](#).
- All loss claim forms, worksheets, and checklists referenced in RD AN 3564 (1980-D) dated 08-17-00 can be printed by clicking [here](#).
- The claim may include the unpaid principal, unpaid interest, all legal expenses (including any recent bankruptcy filed to forestall the foreclosure), advances for escrow expenses not covered by the borrower's funds. In addition, if the property sells within the 6 months, all REO expenses, sale expense, and full note interest up to sale date are included.
- For loss claims based on an appraisal (rather than net sale proceeds), Rural Development will determine the net property value by subtracting 11.87% from the appraised value to allow for the lender's REO expenses.
- The loss claim process does not cover the lender's cost of contracting out the servicing/ REO/ loss claim responsibility. These costs are considered overhead, a non-covered item, if the Lender has decided to hire an outside source in lieu of having it's own staff to carry out these duties.
- The legal costs related to the foreclosure/ bankruptcy/ eviction will be no more than typically allowed by Fannie Mae, Freddie Mac or FHA. Refer to RD AN [3815](#) (1980-D) dated 01-08-03 for more information on Acceptable Liquidation Fees and Costs.

- The gross investment including all the costs listed above are added up and the gross sale amount or appraised value is then subtracted to determine the gross loss. The guarantee pays all of the loss up to an amount equal to 35% of the original loan amount.
- Any remaining loss in excess of 35% of the original loan amount is then paid at 85% of the remaining loss. The maximum loss payable is 90% of the original loan amount.

### **SUPPLEMENTAL CLAIMS**

- None. It is a one-time claim.

### **FUTURE RECOVERY OF LOSS CLAIM PAYMENTS**

- Only applicable in cases when the REO does not sell within 6 months of the acquisition date or if the lender has collected proceeds from a deficiency judgement.
- Losses paid based on the liquidation appraisal at the end of the marketing time may be subject to repayment (recovery) to Rural Development if the eventual contract sales price (Form HUD-1, line 101) exceeds the value of the liquidation appraisal on which the claim was based.
- Refer to RD [AN 3697](#) (1980-D) dated 01-23-02 for additional guidance on future recovery of REO sale proceeds.
- Lenders must furnish Rural Development a copy of the Form HUD-1 (or similar document) from the sale of the REO property, regardless of how long it takes to sell the property, including those cases where the property sells for less than the liquidation appraisal.
- Rural Development will consider reductions in the future recovery amount for certain seller concessions including capital improvements. Include documentation of the seller concessions with the sale information as described in the previous bullet.

### **ACCOUNT INFORMATION CHANGES**

- Notify Rural Development of any changes or corrections in the account information such as name changes, correcting social security numbers, deceased borrowers, etc.

### **INFORM YOUR INVESTOR/DEFAULT REPORTING DEPT.**

- Changes in the account status must be accurately reported to Rural Development and your investor when they occur.

- Numerous codes are used to report the status of GRH loans as they move through various loan servicing situations. These codes can be found in the RHS Electronic Data Interchange (EDI) Handbook at: <http://rdinit.usda.gov/regs/handbook/edi.pdf>.

### **FINDING YOUR RHS CONTACT**

- Determine the state where the property is located.
- Rural Development has a state office in each state. The title of the person directing the program is the “Single Family Housing Program Director.” In Wisconsin, contact Peter G. Kohnen, SFH Program Director at : [Peter.Kohnen@wi.usda.gov](mailto:Peter.Kohnen@wi.usda.gov).
- Find the agency web site / home page for Rural Development in that state.
  - Add to the Rural Development national home page address a “/” and the two letter abbreviation of the state. For example, for Wisconsin it is: [www.rurdev.usda.gov](http://www.rurdev.usda.gov) (our national home page) plus the /wi to make it: [www.rurdev.usda.gov/wi](http://www.rurdev.usda.gov/wi) For Georgia it is: [www.rurdev.usda.gov/ga](http://www.rurdev.usda.gov/ga), etc...
  - Look for the housing programs and the Program Director of the single family programs. It will also have the telephone, fax, e-mail, and a regular mail address.

### **UPDATES BY E-MAIL**

- Provide your e-mail addresses to: [RD.SFH.SO@wi.usda.gov](mailto:RD.SFH.SO@wi.usda.gov).
- We will add your e-mail address to our address book so that you will receive future updates regarding the origination and servicing GRH loans.

**PROPERTY DISPOSITION PLAN  
WI – Rural Development**

TO: USDA, RURAL DEVELOPMENT  
Attn: GRH Section  
4949 Kirschling Court  
Stevens Point, WI 54481

DATE:

RE: Former Borrower Name:

RHS Loan Number or SS#:

Property address:

Holding lender name:

**loan number:**

**contact person:**

**fax:**

ph:

fax:

e-mail:

REO asset management company name:

loan number:

contact person:

**ph:**

**fax:**

**e-mail:**

Local listing agency name:

agent:

ph:

fax:

e-mail:

address:

**listed 'as is' (y) (n)**      **appraiser's 'as is' value**  
and/or      BPO 'as is' value

**appraiser's 'as improved' value**  
BPO 'as improved' value

**date:**  
date:

**Estimated cost of repairs:**

**listing amount:**

**minimum acceptable bid amount:**

**Listing price reductions of      % are planned on this time schedule:**

**Listing agent is exclusive but posts property to the MLS (y) (n)      If no, explain:**

**Listing agent will use all common means to sell, such as posting a sign, open house, notifying investors, posting to the MLS, and special advertising if necessary.**

REO date:

Eviction date, if applicable:

Estimate anticipated 6-month REO expenses, if applicable, including but not limited to:

initial clean-out  
securing (lock change)  
utility connections  
lawn service  
winterizing

sales commission (%)      Amount:  
bonus commission (y) (n)  
possible seller concessions \*  
allowances (repairs, appliances, etc.)  
other (describe)

Or minimum:

OR %      \_\_\_\_\_

TOTAL \$ \_\_\_\_\_

\*

Additional comments:

This plan will be implemented in 5 business days unless Rural Development replies with additional recommendations within that time.

\_\_\_\_\_  
**LENDER'S SIGNATURE**

\_\_\_\_\_  
**PRINT OR TYPE NAME**

- **Attach a recent appraisal and/or BPO, used to determine the value.**
- **You can fax the plan to (715) 345-7699.**
- **Call (715) 345-7620 with questions regarding Property Disposition Plans.**